

Wednesday, March 31, 2010

## Michelle Steel: State Shouldn't Be Loan-Sharking

By MICHELLE STEEL and Sen. LOU CORREA

With all the talk the past couple of years about predatory lending, you would expect California government to have cleaned its own house. But no, the state today acts more like a loan shark than a government.

Many business-tax bills are now being paid online by Electronic Funds Transfer. The deadline for EFT is 3 p.m. on the due date.

What happens if the payment is an hour late? Is there a minor surcharge? Some kind of penalty? Definitely. But it is much bigger than anything perpetrated by an unscrupulous credit card company.

Taxpayers who inadvertently pay their sales taxes or fees even 10 minutes late are automatically on the hook for an entire month's interest payment to the state Board of Equalization. (If, on the other hand, taxpayers inadvertently overpay their taxes this year, they will get zero interest from the board on their refunds.) This unjust policy hurts taxpayers, hurts the general fund and perpetuates California's image as an enemy to business. That is why we have come together to reform California's abusive tax rates with Senate Bill 1028.

Under current law, a taxpayer is charged a flat 10 percent late penalty, and 7 percent interest on top for the entire month in which the late payment occurred. The board can waive the 10 percent penalty if taxpayers prove circumstances beyond their control, but the board must charge the full month's interest except in very limited cases.

This requirement is a flagrant abuse of taxpayers with otherwise impeccable tax records, who, because of even the most innocent mistake, are being charged interest they should not owe. SB1028 (Correa) is sponsored by the Board of Equalization and will allow taxpayers to appeal for a day's worth of simple interest, instead of a month, if they can show good cause at a hearing.

Let us share one example. A few years ago, the accountant for a large car dealership paid sales tax to the board one day late. His payment was due Dec. 24, but he assumed that Christmas Eve was a state holiday. Christmas Eve is

not a state holiday. Yet, many banks and all credit unions were closed, and many of his employees had the day off; it was a simple mistake.

The accountant appeared for a hearing before the board in early 2007 to explain his case: He had made an innocent mistake. The board was able to waive the 10 percent late penalty, but the interest was a great deal of money. He argued that he should only be charged interest for the one day his payment was late. Even though the board recognized that the error was innocent, he was forced to pay the usurious interest.

Previous attempts to change this unjust law have been blocked by legislators who presumed that the new law would reduce revenue. Well, potential revenue losses would be the result of a faulty system that unjustly enriches the state at the expense of the small-business owner. This bill is recognition that the system is unfair as it is currently structured.

All we ask in SB1028 is that the members of the board be given the authority to impose interest on a daily basis for cases in which it is clearly unfair for a taxpayer to pay a full month of interest. It's time for the state to get out of the predatory interest game.